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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF)	
MORNING VIEW WATER COMPANY FOR)	CASE NO. MNV-W-16-01
AUTHORITY TO INCREASE ITS RATES AND)	
CHARGES FOR WATER SERVICE IN IDAHO)	
)	COMMENTS OF THE
)	COMMISSION STAFF
)	

The Staff of the Idaho Public Utilities Commission comments as follows on Morning View Water Company's Application.

BACKGROUND

On May 2, 2016, Morning View Water Company ("Morning View" or "Company") filed an Application with the Commission to increase its rates and charges for water service. The Company subsequently amended its Application on May 16, 2016 and July 12, 2016.

In its Application, the Company asked the Commission to approve a 100% rate increase for customers who live on one acre and half acre lots, and a 50% increase for customers with quarter acre lots. The Company seeks to implement the following monthly flat rates for water service: \$98.96/month – customers with one acre lots; \$81.88/month – customers with half acre lots; and \$48.61/month – customers with quarter acre lots. The Company's current rates were established September 1, 2007. The Company asked that the new rates take effect on June 1,

2016. The Commission has suspended that proposed effective date for 30 days and 5 months under *Idaho Code* § 61-622(4). See Order No. 33531.

STAFF REVIEW

Summary

Staff recommends a total revenue requirement of \$91,061. This is a revenue increase of \$38,843 above test year revenue of \$52,219, which is a 74% increase. Staff also recommends a total expense allowance of \$78,150 and rate base of \$465,874; consisting of \$469,916 in plant in service, \$10,411 in accumulated depreciation, and \$6,369 in working capital.

Background and System Description

Morning View serves about 106 residential customers in the Morning View Acres Subdivision (Divisions 1, 2, 3, and 4) and Country Grove Estates Mobile Home Subdivision (Division 1) in or around Rigby, Idaho.

The Company expects to add up to twenty new customers to the system over the next three to five years. The system should be able to accommodate growth; however, adding new customers may affect the Company's financial condition and rate design in future proceedings.

In 2007 and 2010, the Idaho Department of Environmental Quality (DEQ) entered a Consent Order that found the Company had violated the Idaho Rules for Public Water Systems, IDAPA 58.01.08, and required the Company to make certain improvements to its water system. The Company obtained a loan from the State of Idaho's Drinking Water Treatment Facility Loan Account to fund the required system improvements, including a new well, well house, meters, and variable frequency drive pumps. In 2015, the DEQ reapproved the drinking water system after finding the Company had completed the required improvements and otherwise satisfied the DEQ's conditions.

Customer comments in this proceeding have referenced water pressure problems. Staff has determined that these problems have been substantially resolved, and that most of them occurred at least a year ago before the Company had improved the system as described above. Additionally, some pressure problems may have been related to excessive use by a customer (or customers) on the system, including at least one customer's unauthorized installation of an auxiliary pump to increase water flow to his property. Staff understands the customer has

discontinued the unauthorized pumping. Any remaining pressure problems seem relatively localized and minor, as typically found in a normally operating radial water distribution system like the one operated by the Company.

Related Party Transactions and Internal Controls

Morning View is a family owned and operated water company. The Company's owners also are involved in other business ventures, and some of these affiliated parties do business with the Company. Staff closely scrutinized all affiliated-party transactions to verify their reasonableness.

As part of its audit, Staff reviewed whether the Company has adequate internal controls to ensure its accounting system and financial reporting are accurate and reliable. In previous audits, Staff found some accounting records were poorly kept or unavailable. Staff was informed these accounting records were maintained on a laptop computer the Company did not own or control, and this lack of internal controls resulted in the loss of accounting records. Thus, a new computer and accounting system were needed.

The Company has since adopted the QuickBooks accounting program and engaged Mr. David Reading as the bookkeeper. Mr. Reading has an Associate's degree in Accounting, has training in relevant computer applications, and his responses to Staff's requests for documents in this case demonstrate he understands bookkeeping processes. Staff commends the Company for making these changes to improve its accounting system. However, adopting the new account structure and hiring a bookkeeper are preliminary steps towards establishing adequate internal controls over accounting and reporting.

A company with proper internal controls requires adequate separation of duties, and separates its employees' duties to create a built-in system of checks and balances that ensures one person is not responsible for an entire section of work. Mr. Reading significantly or wholly controls all of the Company's accounting processes, including revenues; payments; all accounting entries; all supporting documents, reconciliations and reports; recording all transactions; check signing authority and is the custodian of bank reconciliations. Additionally, all Company accounting entries are on a computer owned by Mr. Reading. Staff does not, therefore, believe there are sufficient separation of duties to ensure the Company has adequate internal controls over its accounting and finances.

Staff acknowledges the Company only has three employees and that it may thus be difficult for the Company to adequately separate its employees' duties. But Staff believes it is possible. To help achieve adequate controls, Staff recommends the Company adopt a records retention and backup policy, and buy a computer with appropriate software or software services. Staff also recommends the Company contact Staff's auditors for further information on Regulatory accounts classification.

Cash Flow and Accounts Receivable

Staff completed financial analyses of the Company's books, including a cash flow analysis. The analysis shows the Company has liquidity problems and that its revenues do not cover its expenses. In particular, the Company's Accounts Receivable Procedures have deficiencies that hinder the Company's ability to ensure accounts receivable are current. The Company follows standard procedures, such as filing liens and terminating water service, as part of its collection procedures. But an analysis of accounts receivable from 2013–2015 revealed high delinquency rates; the Company routinely carries accounts receivable that are more than 90 days overdue, and the average account is more than 50 days overdue. Having 95% of Accounts Receivable current is closer to normal. The Company presently has no processes to reconcile accounts receivable with deposits. Staff believes such a process is needed to improve internal controls for accounts receivable.

REVENUE REQUIREMENT

The Company has requested a historical test year ending December 31, 2015, with pro forma adjustments to revenues and costs. Staff has made adjustments and updated the Company's test year data to reflect the results of their analysis. Attachment A shows a summary of the adjustments Staff recommends in this case. The Staff-adjusted results show a net annual operating loss of \$25,932 and a Net Plant in Service of \$459,505.

Revenues

The Company's Application stated that test year revenue was \$52,219 from unmetered revenue and \$137 from other revenue. The other revenue consisted of \$125 in disconnection fees and \$12 in returned check fees. The other revenues are all one-time revenues that Staff

recommends be removed from the incremental revenue requirement calculation as shown on Attachment A, Column B.

In addition, \$6,310 of the test year revenue came from surcharge fees that the Company collected, as described below. Staff recommends reclassifying that amount from unmetered revenue into Commission-approved surcharges collected (Attachment A, Column C).

Surcharge

In Order No. 29104 (Case No. MNV-W-02-01), the Commission authorized the Company to collect a five dollar per month surcharge from each customer to "...fund a contingency reserve account. The reserve account will assure the Company's ability to provide more reliable service by providing a fund for extraordinary and unforeseen major repair and replacements." The Commission required that:

1. The surcharge be separately identified on billing statements;
2. The surcharge be deposited in a separate contingency reserve bank account;
3. The Company submit a surcharge report with the Company's annual report providing a detail of all surcharge funds collected and disbursed; and
4. The Company cease the surcharge when the contingency reserve account reached \$10,000, and that the Company may reactivate the surcharge when the reserve account falls below \$5,000.

In Order No. 30420 (Case No. MNV-W-06-01), the Commission noted that the Company had failed to file the proper reports and maintain proper documentation, and had used some of the funds for unauthorized expenses. The Commission ordered the Company to replace those funds not spent on authorized expenditures and for the Company to adhere to the record keeping and reporting requirements.

In reviewing the surcharge for this case, Staff notes the Company has satisfied requirement 1 by properly identifying the surcharge separately from the tariff amounts for water service on the customers' bills. But the Company has not satisfied requirements 2 and 3; the Company has not regularly deposited funds into a separate contingency reserve surcharge account, and the Company's annual report has not included a surcharge report. Staff also audited the Company's surcharge deposits and expenditures and learned that an additional \$63,460 through September 2016 should be deposited into the contingency reserve account. *See*

Attachment B. The Company reported that the funds collected by the surcharge have been used for day-to-day operations. Staff's findings support this statement. Specifically, Staff has verified that the Company properly used \$7,450 in surcharge funds for extraordinary and unforeseen major repairs or replacements as contemplated in the prior Order. The rest has been used for day-to-day operations of the Company without approval from the Commission. Since the customer-supplied surcharge funds are only to be used to cover extraordinary and unforeseen major repairs and not for day-to-day operating expenses, Staff recommends the Commission require the Company to account for the remaining \$62,443 as contributed capital, and use those funds to reduce Plant in Service. *See* Attachment B, line 17.

Because the Company has not satisfied the Commission's requirements for using the surcharge, Staff recommends that the surcharge be discontinued. Staff recommendations for plant in service related to system improvements and accounting for surcharge funds will properly reflect these items in base rates following this case.

Expenses

The Company reported Total Expenses from Operations, before interest, for the test year totaling \$100,838 as shown on Attachment A, Column A, line 33. This total consists of test year actual expenses equaling \$55,473, plus known and measureable expenses equaling \$45,365.

Known and Measurable Changes

Adjusting test year data (embedded costs) to reflect known and measureable changes is a standard regulatory accounting tool that is used to update a company's revenue requirement. When a project or operating change occurs during the test year, twelve months of expenses for the project or operating change do not appear in the accounts for that year. The purpose of a known and measureable change is to properly reflect twelve months of expenses in the revenue requirement for recovery in rates. Staff verified all known and measurable changes for reasonableness. Any adjustments are discussed below.

Labor Expenses – Overview

Staff's Composition Analysis revealed employee compensation and the related payroll taxes equal 66.3% of all reported expenses. All Company employees are family members or

extended family members. Thus, their compensation is a related party transaction and subject to additional tests of reasonableness. Staff used the Idaho Department of Labor Annual Idaho Occupational Employment and Wage Release for 2015, for the Metropolitan Idaho Falls Area, for comparisons. Staff used the Standard Occupational Code (SOC), Occupational Titles and pay rates for each duty to test total compensation for each employee. The results of Staff's analysis are summarized below.

Labor – Operations and Maintenance

The Company is required to have a licensed water system operator. However, the Company has not separately reported expenses for these duties. The Company employs Mr. Gneiting, who owns the Company and is a licensed water system operator. Mr. Gneiting, holds License No. DWDVSW 12020G, and is well acquainted with this water system. His oversight meets legal requirements necessary for the Company to complete its primary operating objective: to deliver clean, safe drinking water. In this case, the Company reported Mr. Gneiting's total compensation under the category of "Salaries – Officers and Directors." While this classification may be convenient, it does not reflect the reality of day-to-day operations. To test the reasonableness of these wages, Staff used local wages for SOC Code 51-8031, Water and Waste Water Plant and System Operator. The average wage for someone in this classification with Mr. Gneiting's experience is \$18.16 per hour. Total reported wages for Mr. Gneiting, including known and measureable changes is \$12,240 in the test year. Using Mr. Gneiting's statements about his duties and hours, and Staff's observations and other audit evidence about his administrative duties, Staff reclassified 75.0% of his reported compensation to "Labor – Operations and Maintenance." This is equivalent to 42 hours per month at \$18.16 per hour. In light of this reclassification, Staff believes it is reasonable to transfer \$9,180 to "Labor-Operations and Maintenance," as shown on Attachment C and summary Attachment A, Column D.

Labor – Administrative and General

Administrative staffing at Morning View has changed since the previous audit. The Company reported a total of \$16,800, including known and measureable changes, as compensation for Mr. Reading, a related party. Mr. Reading performs part time duties as a

bookkeeper, SOC code 43-3031; SOC code 11-1021, general manager; SOC code 43-3011, Account Clerk; SOC code 43-3011, Account Collector; and other duties. Staff believes the quality of the Company's documentation does not satisfy the burden of proof for related parties. *See Boise Water Corp. v. IPUC*, 97 Idaho 832555 P.2d 163 (1976) (The general rule places "upon the utility the burden of proving reasonableness of its operating expenses paid to an affiliate. . . . and if there is an absence of data and information from which the reasonableness and propriety of the services rendered and the reasonable cost of rendering such services can be ascertained by the commission, allowance is properly refused"). Here, Staff did not receive a schedule of annual hours by duty so was not able to fully break out the wages by duty. Mr. Reading reported a total of 1040 hours annually. Staff recognizes Mr. Reading may require and Morning View may choose to pay more than local pay rates. However, it doesn't mean the total cost is prudent for inclusion in customer rates. Staff believes the majority of Mr. Reading's time is applied to bookkeeping duties and total duties are approximately 500 hours annually under normal operations. The median pay rate equals \$15.27 per hour. Staff recommends reducing Labor – Administrative and General, by \$9,165. This will also decrease payroll taxes by and additional \$1,402. *See* Attachment D and summary Attachment A, Column E.

Salaries – Officers and Directors

The Company is a corporation in good standing, and that salaries for a corporation's Officers and Directors are normal operating expenses. Reported salaries and other compensation for Company management totaled \$12,240. Staff reclassified 75.0% of this amount as Labor – Operations and Maintenance. The remaining balance of \$3,060 is the compensation for Mr. Gneiting's management and administrative duties, including his approval of payments, performance of various managerial duties, and oversight of Financial Statements. Most of Mr. Gneiting's administrative duties are included in General Manager, SOC code 11-1021, at \$37.79 per hour. His other duties are similar to those typically performed by Office Clerks, such as SOC code 43-9061, at \$13.37 per hour. Staff thus believes \$3,060 reasonably compensates Mr. Gneiting for performing his managerial and administrative duties.

Purchased Power and Fuel Expense

Purchased power and fuel expenses are primarily related to the cost of electricity used for water pumping. The Company reported test year actual expenses for purchased power and fuel expense of \$15,582, and known changes to those expenses of \$6,000, for a total pro forma adjusted expense of \$21,582 (Attachment A, Column A, line 11). Staff recommends, however, that the Company's reported pro forma expense be reduced by \$7,303 as shown in Attachment A, Column F, resulting in a Staff-recommended expense of \$14,279. The detailed calculation of the Staff adjustment is shown in Attachment E. There are four steps in calculating Staff's reduction of \$7,303.

First, Staff calculated the effect of a \$0.002903 per kWh increase in the variable cost of electricity that the Company purchased from Rocky Mountain Power for water pumping. The adjustment for the electricity cost increase is a positive \$487 (Step 1 shown in Attachment E).

Second, Staff adjusted for abnormally high electricity usage in November 2015 and December 2015. Electricity usage should be directly related to the quantity of water pumped and sold to customers. The Company purchased 31,317 kWh from Rocky Mountain Power during November 2015 and December 2015, and sold 1,156,000 gallons of water during the two months (27.1 kWh per 1,000 gallons pumped). In comparison, the Company purchased fewer kWh in each of the previous six months, yet sold between 4,461,000 and 11,351,000 gallons of water. Over the six month period from May 2015 through October 2015, the Company purchased 110,833 kWh and sold 46,671,000 gallons of water (2.4 kWh per 1,000 gallons pumped). The electricity usage in November 2015 and December 2015 is abnormally high relative to usage in the previous six months; over 10 times as many kWh per 1,000 gallons pumped as in the six month period. Staff used the more typical November and December kWh for 2014 and calculated an adjustment for abnormal kWh of negative \$2,046 (Step 2 shown in Attachment E). The Company should further investigate the cause of the high electricity use for November 2015 and December 2015.

Third, Staff calculated an adjustment for unnecessary minimum charges and late charges on the electric bills. The Company owns three pumps and receives three different electric bills from Rocky Mountain Power. The new pump is billed under a Rocky Mountain Power service plan that imposes a minimum charge if the total bill falls under a certain threshold. Because of this provision, the Company should use the new pump until the minimum bill threshold is met.

When the minimum threshold has not been met in a given month, splitting usage between two pumps can cause minimum bill charges that could have otherwise been avoided. For example, in May 2015 and September 2015, the Company split its use between two pumps, and incurred minimum bill charges of \$116.11 and \$69.12. These charges could have been avoided had the new pump been used exclusively. Staff reduced purchased power and fuel expenses by the \$116.11 and \$69.12 for May 2015 and September 2015, respectively.

Staff recognizes that the aforementioned reduction for abnormal usage in November 2015 and December 2015 will trigger minimum charges in these two months. Therefore, Staff has adjusted purchased power and fuel expense up by \$239.75 per month for November 2015 and December 2015. The minimum charges for some months are unavoidable and Staff is not recommending adjustments for these months.

Additionally, Staff recommends a reduction of \$39 to account for unnecessary late fees on electric bills. The net of adjustments to purchased power and fuel expense for minimum charges and late fees is an increase of \$255 (Step 3 shown in Attachment E).

Fourth, the Staff recommends rejection of the Company's proposed \$6,000 adjustment for known changes to purchased power and fuel expense (Step 4 shown in Attachment E). The Company has not justified this adjustment. The net of the four steps in the calculation of the adjustment is a reduction of \$7,303.

Materials and Supplies – Operations and Maintenance

The Company reported \$4,100 in expenses for Materials and Supplies – Operations and Maintenance, including \$3,062 for transactions during 2015. The known and measureable increase totaled \$1,037 for maintenance on the new well house. Among the transactions included for 2015, are accounting adjustments, payments for incidental labor, a security contract and two related-party transactions. The first related-party transaction included labor for placing a small concrete pad at the new well house. Staff believes the costs of this addition, including \$152 for concrete and \$450 for labor, are improvements and not a regularly recurring expense. Consequently, Staff is removing this expense, totaling \$602, and has capitalized it to plant in service. The second related party transaction was a transfer of funds totaling \$572.95 to Landco on March 11, 2015. The Company claims this \$572.95 was for three invoices incorrectly paid by Landco. In related-party transactions, the related parties bear an increased burden of proof. It is

not enough for the Company to simply show it incurred the related-party expense; rather, the Company must provide evidence that the expense was reasonably incurred. In Production Request No. 40, Staff requested documentation, including evidence that Landco paid the three invoices totaling \$572.95. The Company included a copy of an invoice for one of the three invoices totaling \$430. However, the Company could not document that Landco previously paid the three amounts, or otherwise provide evidence to show that this related-party transaction was appropriate. Staff has thus removed expenses totaling \$1,175, as shown on Attachment F.

Materials and Supplies – Administrative and General

Morning View reported \$1,600 in expenses for Materials and Supplies – Administrative and General. This category of expenses consists of postage, office supplies and computer expenses. During its audit, Staff tested expenses for postage and office supplies. The total also included \$300 for computer training. Although Staff believes computer training is unlikely to be an annually recurring expense, no adjustment was made because it is reasonable that \$300 annually for training in other areas will occur. In the future, however, the Company should book training to the proper expense category.

Contracted Services – Water Testing

Water testing requirements follow a nine year rotation schedule. Staff believes it is reasonable to include an annualized amount to allow collection of the total amount over the nine year schedule. Calculation of the total testing costs and the annual adjustment is included in Attachment G.

The Company's pro forma water testing expense is \$1,000. Staff calculated water testing expenses for the Company's three wells to be \$1,952. Therefore, Staff recommends an increase of \$952 to the Company's pro forma water testing expense.

Miscellaneous Expenses

The Company's Application includes \$12,049 in Miscellaneous Expenses. The Company lists 12 categories of Miscellaneous Expenses, and adequately documented the amounts in several of these categories. Consequently, Staff only discusses some specific categories.

1. Miscellaneous Expense – Bank Charges: Morning View maintains an account with Wells Fargo Bank. The Company reported a \$360 Bank Service Charge Expense consisting of three types of charges. The first charge is for returned customer checks. Wells Fargo Bank charged \$12.00 for each item returned. Staff recognizes this charge occurs for specific customer accounts and believes it is reasonable to recover these charges directly from those customers as discussed below in non-recurring charges. Second, Wells Fargo Bank charged \$18.00, for on-line access to account statement balances and activities. Staff believes use was not excessive and no adjustment is required. Third, the largest amount of Bank Charges is for service charges totaling \$281. Wells Fargo Bank applied a charge which increases with the number of transactions, as explained in the monthly bank statement. Staff does not believe it is appropriate to ask water company customers to pay these charges when they are not assessed by other banking institutions. Staff's audit adjustment removed Bank Service Fees totaling \$281, as shown on Attachment H, line 1.

2. Miscellaneous Expense – Software Support: The Company reported total software support of \$3,000. The Company purchases the meter reading software each year totaling \$1,500 annually. Additional software is available for printing invoices at a cost of \$1,500. During this audit, Staff observed the meter reading software in use. In Production Request No. 44, Staff requested a demonstration of the software's ability to print monthly invoices, using specified information. In the response, the Company reported it printed sample water bills using Excel software. The additional bill printing software is not being used. Staff's audit adjustment thus removes \$1,500, as shown in Attachment H, line 6.

3. Miscellaneous Expense – Legal Fees: The Company requested in Addendum #2 an additional \$700 for legal fees to defend their water rights. Staff agrees that defending the Company's water rights is prudent, and therefore recommends including the \$700 as additional legal fees in Miscellaneous Expense. *See* Attachment H, line 8.

4. Miscellaneous Expense – Mileage: Morning View proposed a total of \$2,368 in known and measureable mileage expenses. The purpose is to reimburse employees use of personal vehicles for Company business. Transportation to and from work is not a reimbursable expense. The standard Federal mileage rate is \$0.54 per mile. The proposed \$2,368 is equivalent to 4,385 miles annually, or an average of 365 miles monthly. A branch of the Company's bank is located 1.2 miles from the office. If this trip were made five times each month, to make deposits, the

annual total equals 144 miles, or \$77.76, annually. Staff recognizes additional mileage may be appropriate for delivering water samples or other uses. Documentation provided by the Company did not include mileage records for 2015 or the calculation method. Although the \$2,368 does not satisfy the known and measureable requirements, some mileage is reasonable. Staff recommends removing \$2,000 as shown in Attachment H, line 9.

5. Miscellaneous Expenses – Rent: The Company included \$900 of rent expenses in miscellaneous expenses. The office is rented from Mr. Gneiting and is a related-party transaction. Rent for this office was included in the 2002 case, and in the previous audit for MNV-W-06-01 where Rental Expense of \$950 annually was approved by the Commission. In this audit, Staff considered suitability, location and physical condition. Staff toured the building and found it contained three offices, a bathroom plus typical office equipment and furniture. The building has a parking area and is near the well houses. Staff acknowledges the building is aged and the exterior is rough but found the building serviceable. Staff believes the location is significant because small office rentals are not common nearby. Staff believes the Company's adjustment of \$900 is reasonable as shown on Attachment H, line 10.

6. Miscellaneous Expense – Repairs and Maintenance: Staff acknowledges combining these two categories is a common practice. However, for regulatory purposes, Maintenance Expenses and Repair Expenses are different categories of expenses. In Production Request No. 46, Staff requested copies of recent repair records. The Company's response referred to the maintenance expenses previously reported. Staff notes four items. First, with two exceptions, the amounts referred to were included in operating expenses as Supplies-Operating and Maintenance. Second, adding them again as repairs expense would compound misclassification and double counting. Third, labor costs for Mr. Gneiting, whose duties include repairs, are already included in expenses. Fourth, it is hard to demonstrate that adding new Plant in Service directly caused a need for additional repairs. The differences between Maintenance and Repairs are explained in the uniform system of accounts for small water companies. "Maintenance" is regular or predictable and usually includes labor and materials and perhaps minor supplies. In contrast, "repairs" are generally unpredictable in timing. Labor is performed by employees whose wages are reported in other accounts resulting in repairs usually being smaller amounts. Consequently, maintenance expenses may be known and measureable while repairs expenses may not be. Staff often uses average amounts demonstrated in recent historical records for repairs expenses. In the

absence of repair records, Staff believes \$150 is the appropriate annual amount to include in miscellaneous expenses. The balance of \$850 is removed, as shown in Attachment H, line 11.

7. Miscellaneous Expenses – Rate Case Transcript: Morning View intends to purchase a copy of the Public Hearing Transcript to make sure customer concerns are properly addressed. Staff believes this is an appropriate adjustment and has increased expenses by \$188 as shown on Attachment H, line 13.

Regulatory Fees –PUC

Morning View reported test year actual PUC fees of \$630, plus known and measureable changes of \$127, for a total PUC-related expenses of \$757. This is an increase of 117.5% over the prior year. Staff's reconciliation revealed the \$630 includes \$506 for property taxes. Staff's adjustment thus reclassifies the \$506 as property tax expense. Property taxes are properly shown on Attachment A, Column A, line 30. Staff calculated the annual PUC fee using 2015 revenues at \$130 as shown on Attachment I. The adjustment nets to \$384 is also shown on Attachment A, Column J.

RATE BASE

Plant in Service

The Company lost most if not all of its accounting records in 2013. When rebuilding those accounting records, the Company assigned values to Structures and Improvements, Power Pumping Equipment, Hydrants, and Office Furniture and Equipment. While Staff commends the attempt to rebuild its accounting records, Staff recommends adjusting plant numbers to those established by the Commission.

In the Company's last rate case, Case No. MNV-W-06-01, the Company was authorized a plant in service amount of \$8,994. This consisted of: (1) the prior plant in service that would be fully depreciated in 2007; (2) an electrical panel for \$1,269 with a five-year depreciable life; (3) a new computer for \$806 with a five-year depreciable life; and (4) DEQ-required repair work on the well pump totaling \$5,014 with a ten-year depreciable life. The first three items are fully depreciated and, for purposes of convenience in regulatory accounting, they can be eliminated from the plant in service schedule along with the applicable accumulated depreciation. The fourth item would have a remaining undepreciated amount of \$255. Again for ease of reporting, Staff

recommends that this be used as an offset to the contingency fund contribution and therefore remove it as a separate line item along with all the applicable accumulated depreciation. The remaining balance of the contingency fund contribution will be \$62,188 as shown on Attachment B, line 19.

The only remaining plant in service items totaling \$532,104 were placed in service in 2015 and were mostly funded with the Idaho Drinking Water Revolving Loan. The detailed Plant in Service Accounts are shown in Attachment J. As discussed above in the Surcharge section, Staff recommends reducing plant in service by the remaining amounts contributed in the contingency fund. Staff allocated the total \$62,188 contribution funds to the various accounts based on the percentage of the total. The remaining Plant in Service amount is \$469,916. *See Attachment J.*

Using the NARUC Depreciation Practices for Small Water Utilities guidelines, Staff recommends the depreciation schedule as reflected in Attachment K for a total depreciation expense of \$20,822. All of these plant items were placed in service in 2015. Using a half-year convention for the first-year depreciation, Staff recommends an accumulated depreciation amount of \$10,411, for a net plant in service of \$459,505.

Working Capital

In the Company's Application, the Company requested \$71,388 in working capital equal to the operating expenses referenced in the Application. This is not, however, a proper method for calculating working capital. Staff recommends using the 1/8th rule for calculating working capital. This method calculates the working capital to be included in rate base at 1/8th of a company's operating expenses. This is a common practice for small water utilities without the capability of performing a more complex analysis. With this calculation, Staff recommends a working capital of \$6,369.

The Staff recommended rate base is the total of net plant in service and working capital totaling \$465,874. *See Attachment L.*

Rate of Return and Capital Structure

In its Application, the Company reported that it has \$550,654 in long-term debt at 8% interest. The only long-term debt outstanding is the Idaho Drinking Water Revolving Loan,

which has a current outstanding balance of \$531,502 at 1.25% interest. There are provisions for partial forgiveness of this loan. Nevertheless, Staff recommends that the Company continue to treat the entire outstanding loan amount as long-term debt until the loan is actually forgiven.

The Company also reported that it has \$19,152 in short-term debt, which consists of loans to the Company from its owners, Mr. and Mrs. Gneiting. Idaho Code §61, Chapter 9, requires loans to be approved by the Commission. These loans will not likely be paid back with the 12 months required to be considered short term loans, and the payback time frame is too flexible to be considered loans in most circumstances. Therefore, Staff recommends treating these loans from owners as investments that constitute part of their equity in the Company. Staff thus recommends a capital structure consisting of 90.77% long-term debt and 9.23% common equity, as shown on Attachment M.

Staff also recommends an 11% return on common equity (ROE) in this case, which reflects current market conditions. The resulting overall rate of return is 2.15%.

The Company has expressed concern about covering its debt payments. Staff estimated these payments will cost the Company about \$22,000 per year. The Staff recommended return on investment plus depreciation is \$30,837. This will cover the payments on the loan. Part of the reason the current revenue requirement exceeds the expected payment is that the Company's plant is depreciated over an average of 28-year life, while the loan is for 30 years. Therefore, Staff recommends that the Company create its own sinking fund to be prepared to meet this timing difference for the final two years of this loan may not be covered by return and depreciation in the revenue requirement at that time.

Calculation of Revenue Requirement

Staff recommends a total rate base of \$465,874 as stated in Attachment L. This is \$213,766 less than the Company's Application. Staff's recommended rate base consists of net plant in service of \$459,505 and working capital amount of \$6,369.

Attachment N shows the Staff recommended revenue requirement increase. Staff calculated the revenues associated with the return on rate base (line 3) to be \$10,017 ($\$465,874 \times 2.15\%$). This amount is subject to federal income taxes, state income taxes, and the Commission fees. *See* Idaho Code § 61-1001 et. seq. (each public utility must pay to the Commission an annual regulatory fee). The Staff-calculated deficiency of \$25,932 is also subject to Commission

fees. The process of increasing the revenue requirement for taxes and Commission fees is referred to as the “gross-up.” The gross-up factor is 128.8884% when the amount is subject to income taxes, and 100.6925% when it is not subject to income taxes. The process of calculating the gross-up is detailed on Attachment N, lines 19 to 26. These grossed-up amounts result in a total deficiency of \$38,843 (line 13) for a total revenue requirement of \$91,061 (line 18), which is \$77,029 less than the Company’s request. Based on these calculations, Staff recommends that the Company’s revenue requirement be increased by 74%.

RATE DESIGN

Staff believes the Company’s current rate design causes low water users within each customer group (based on lot size) to inappropriately subsidize high water users. Staff thus proposes a new rate structure to better mirror the Company’s cost to provide water service. To achieve this more equitable rate structure, Staff recommends that the Company implement a volumetric (usage) charge. Staff proposes a two-part rate structure that includes minimum charges and a two-tier volumetric charge. The Company’s current and proposed rate design and Staff’s more equitable rate design are explained below.

The Company’s current minimum charge varies by lot size with separate minimum charges for quarter acre, half acre, and one acre lots. The Company’s existing and proposed rates are illustrated in the following table:

Lot Size	Current Minimum Charge (per month)	Company Proposed Minimum Charge
¼ Acre	\$27.41 + 5.00 surcharge	\$48.61
½ Acre	\$35.94 + 5.00 surcharge	\$81.88
1 Acre	\$44.48 + 5.00 surcharge	\$98.96

In this case, the Company has proposed a flat rate structure with minimum charges only; however, the Company has asked Staff to help it design a two-part structure with a minimum charge and a volumetric charge. The Company installed meters over a year ago in anticipation that it would implement volumetric charges.

The proposed volumetric charges recognize that some variable (i.e., “volumetric”) costs to provide water service vary directly with the quantity of water consumed. For example, the Company’s costs for electricity to pump water accounts for about 20% of the Company’s operating expenses during the test year. As the amount of water pumped increases, the Company’s costs for electricity to pump that water also increases. The volumetric charge helps ensure customers who add variable costs contribute equitably to covering those costs, thus minimizing the subsidization of high-use customers by low-use customers.

Staff’s proposed rate structure is illustrated below:

Lot Size	Proposed Minimum Charge	Size of 1st Tier (in 1,000 gallons)	1st Tier charge (\$/1,000 gallons)	2nd Tier charge (\$/1,000 gallons)
¼ Acre	\$49.00	10	\$0.15	\$0.45
½ Acre	\$58.00	40	\$0.15	\$0.45
1 Acre	\$63.00	45	\$0.15	\$0.45

In summary, Staff’s proposed volumetric charges follow an inclining block (tier) structure. In an “inclining block,” the price per gallon of water increases as usage increases. Staff’s proposal includes two usage tiers. The lower-priced first tier would cover water use for basic “indoor” needs, like cooking, dishwashing, clothes washing, bathing and personal hygiene. The higher-priced second tier would cover more “discretionary” water use. Water for lawn maintenance and gardening in warmer months could fall under the second, higher-priced tier. Customers with quarter acre lots may buy up to 10,000 gallons per month at the lower first tier price. Customers with half-acre and one acre lots pay higher monthly minimum charges, and may buy larger amounts of water (40,000 and 45,000 gallons per month, respectively) at the first tier price. Tier sizes were chosen so each customer group would buy about 39% of its water (based on historical use) within the lower-priced first tier. The inclining block rate structure would enable customers to mitigate some of the rate increase by conserving water. Low-use customers may be able to purchase most or all of their water in the lower-priced tier, especially during non-summer months. The higher second tier price would incentivize customers to use less water for “discretionary” tasks. Since excessive water use can adversely affect downstream water pressure, reducing consumption through the higher-priced second tier may help the Company avoid future pressure problems.

Additionally, two customers filed comments supporting an allowance, meaning some water (e.g., 10,000 gallons per month) is provided at no charge when the monthly minimum charge is paid. Staff opposes using an allowance in the minimum charge for Morning View Water. Allowances incorrectly send the price signal that some water can be provided at no cost. Furthermore, some customers are subsidized by those who keep monthly usage below the allowance. For example, one customer commented that “in the winter we never go over 2,000 gallons, but we still pay the full amount.” An allowance would cause this low-use customer to subsidize higher-use customers in these winter months. The inclining block structure addresses the desire to offer a reduced price for basic needs without sending the faulty price signal associated with the allowance.

In Staff’s proposal, minimum charges remain differentiated by lot size. Statistical analyses performed by Staff confirm that quarter acre, half acre, and one acre customers have distinctly different levels of water use. Differences in water use - especially during peak demand periods - necessitate different levels of demand-related investment (e.g., water pumping capacity) to serve the customer groups. Differentiating the minimum charges by lot size reflects these differences in demand-related costs.

Staff’s proposes minimum charges of \$49.00 for quarter-acre lots, \$58.00 for half-acre lots, and \$63.00 for one-acre lots. These minimum charges preserve the minimum charge differentiation based on lot size, maintains similar average bill impacts among the three customer groups (about a 72% increase), and allows for 20% volumetric cost recovery.

Bill Impacts

A range of possible monthly bill impacts from Staff’s proposal are detailed in the Attachments O, P, and Q. Under Staff’s proposed rates, customers who use more water pay higher bills that reflect the additional variable costs that these customers create. Also, an increase in usage results in a higher percentage bill increase. These attachments show that most monthly bills based on past consumption fall into categories with lower percentage monthly bill increases.

Customers with the largest percentage bill increases would have ample opportunities to reduce their bills. For example, two customers each used over 400,000 gallons of water in July 2015. These two customers used more than four times the water that an average customer used in this month.

Staff's proposed rates would generate revenues approximating the revenue requirement target of \$91,061. Staff's proof-of-revenue analysis is included as Attachment R. Staff cannot be certain about how usage will change under Staff's volumetric rate design proposal. Consequently, Staff recommends the Company include water sales, by rate group and customer with its annual report. If significant changes in sales affect system operation and cash flow, the Company may not be able to collect its revenue requirement. The requested usage report would help Staff monitor the Company's financial condition, and should help determine if a rate adjustment is necessary.

Customer Notice and Press Release

The Company contacted Commission Staff on May 3, 2016, to ask for assistance in drafting the customer notice and press release for this case. Staff worked with the Company to ensure these documents adhered to the Commission's Rules of Procedure, IDAPA 31.01.01. The Company filed its customer notice with the Commission on May 19, 2016, along with a request to amend its Application. The Company mailed the notice to customers on May 25, 2016. The Company also emailed a copy of its customer notice to the list of local media contacts provided by Commission Staff, which included the Jefferson Star in Rigby, the Idaho Falls Post Register and Channel 8 News.

Public Workshop

The Commission issued a Notice of Public Workshop on June 7, 2016. At Staff's request, the Company attached the Commission's Notice of Public Workshop to customer bills that were sent to customers on June 25, 2016. The workshop occurred in Rigby on July 12, 2016, and was attended by more than 50 people.

Discussion at the workshop focused on water pressure issues, lack of communication between the Company and its customers, and the Company's proposed rates. In response to a customer's concern about ongoing pressure issues, the Company tested water pressure at several locations near the customer's house. The Company found the pressure to be between 58 psi and 60 psi, which is well above the minimum DEQ requirement of 40 psi. The Company also stated that the pressure at the pump (well house) was 70 psi.

When some customers stated they had not received advance notice of the workshop, Staff confirmed with the Company that it had mailed the workshop notice to all customers. Staff notes that besides the Company mailing the notice of the July 12 workshop with its June 25 bills, the Commission also issued a press release about the workshop on June 17, 2016. Staff is, therefore, satisfied that customers received sufficient notice of the workshop.

Notice of Public Hearing

The Company mailed the Commission's Notice of Public Hearing with its July 25 bills, and Staff mailed the Notice of Public Hearing to customers on August 5, 2016. In addition, on August 10, 2016, the Commission received a letter from the Concerned Citizens of Morning View Water Company Homeowners Association (CCMV) stating that CCMV had distributed the Notice of Public Hearing to all customers on Saturday, August 6, 2016. Staff is confident that customers have received sufficient notice of the hearing.

Customer Comments

As of August 18, 2016, twenty (20) comments had been submitted. Some customers submitted multiple comments. All commenters opposed the amount of the rate increase. One customer noted that many customers live below the poverty level and qualify for government assistance, and customers with fixed-incomes or limited income expressed concern about the large rate increase proposed by the Company.

Most customers understand the importance of metered usage. Many of them support a rate design based on metered usage, but think that some usage should be covered by the monthly customer charge. Customers stated that the proposed increase and metered service would adversely affect their ability to maintain lawns, gardens, and pastures. Another customer stated that she has already reduced outside watering to the point that her plants are dying. Other customers suggested that they might have to reduce future usage and allow landscaping and lawns to dry up in order to keep summer water bills affordable.

Customers have expressed concern about when the Company began reading meters and whether the Company properly recorded the water usage history that Commission Staff used to design rates. At Staff's request, the Company included each customer's monthly usage record for the past year in the customer's July 25 bill. Customers who have previously submitted comments

on the case have contacted Staff to request that if a metered rate design is approved, the Company's future bills should identify meter reads and when meter readings are taken.

Long-time customers commented that the outages of previous years are no longer a problem and that it is no longer necessary to install pressure pumps on their properties to ensure sufficient water pressure. However, they are concerned that low water pressure could again become a problem as more of the empty lots within the system are developed and new houses are built.

Customer Complaints and Inquiries to Commission

In 2013, the Commission's Consumer Assistance Staff received one complaint and one inquiry about the Company. The complaint expressed concern about the lack of water pressure during the summer due to high usage.

There were three complaints and three inquiries in 2014. One complaint concerned water pressure and water quality issues. The other two complaints focused on the Company's billing statements and billed amounts. One customer inquired about the prospect of a rate increase due to system improvements. The other two customers asked about the Commission's requirements regarding the Company's business hours and when service may be disconnected.

In 2015, three complaints and one inquiry were filed. One complaint focused on billing and payments and the Company's inability to provide a detailed billing history. Another customer needed help to obtain a payment plan that would fit her budget. One complaint asked about the surcharge, water pressure issues and the system being shut down without advance notice to customers; the customer also raised the issue of his water being shut off without sufficient advance notice. A customer inquired about the Company requiring the customer to install a check valve on their side of the meter, which is a requirement of the State plumbing code under certain circumstances.

Two complaints were filed in 2016 after the public workshop occurred. The first complaint was from a customer who wanted a billing and payment history for his account. The second complaint concerned the water usage history supplied to customers and ongoing fluctuations in water pressure.

Historically, most complaints have focused on water quality, low water pressure and service disruptions. Others focus on billing and payment issues, including payment arrangements so the customer can continue to receive service.

Staff recommends that the Company maintain open communications with customers, including appropriately notifying them if the system needs to be shut down for maintenance or repairs and promptly responding to customer questions and concerns. The Company has an office in the subdivision and should set regular office hours that enable customers to speak directly with the Company. The Company should also ensure it responds promptly to customer phone calls and emails, and that it has a 24-hour telephone number that customers can call in case of an emergency. The Company should be sure to follow DEQ guidelines for notifying customers before system shutdowns, and provide its water quality summary to ensure customers are aware of the Company's current water quality.

Meter Reading and Billing

If the Commission approves a new rate design based in part on metered usage, the Company will need to establish a meter-reading and billing policy that will comply with the Utility Customer Relations Rules (UCRR).

The UCRR require the Company to read meters on a regular schedule and to base bills on those readings. In addition, bills must include the beginning and ending meter readings and the date the readings were taken. The Company mails billing statements on the 25th of each month for service provided during that calendar month. With the adoption of a metered usage rate design, the Company may need to change billing issuance and due dates. Staff will work with the Company to ensure that its meter reading and billing practices and new billing statement will meet UCRR requirements.

After the Company sent customers their metered usage history, some customers contacted Commission Staff to express concern about whether the billed usage is based on actual readings. Staff explained how the meters record usage and customers can verify meter readings. Staff recommends that the Company work with Staff to establish a meter reading and billing policy and develop a written explanation of that policy for distribution to customers.

WATER CONSERVATION

Adjusting to metered rates may be difficult for the Company's customers because they are used to paying a fixed charge for an unlimited amount of water. To help customers keep their water bills affordable, the Company should educate its customers about how they can conserve water inside and outside their homes. Staff is willing to work with the Company to identify existing resources and/or develop appropriate information that can be provided to customers to help them during the transition.

COMPANY TARIFF

The Company's current tariff, including its Rate Schedules and the General Rules and Regulations for Small Water Utilities, was last updated in 2007 in Case No. MNV-W-06-01. Staff recommends that the Company update its tariff to satisfy the UCRR's current requirements, and to incorporate the Uniform Main Extension Rule for Water Utilities based on Order No. 7830 (Case No. U-1500-22). Staff is willing to work directly with the Company to ensure its tariff complies with the Commission's rules and regulations.

NON-RECURRING CHARGES

Reconnection Fee

In its review of Company records, Staff found three instances in which the Company charged customers a reconnection fee when service was disconnected and again when service was reconnected. The reconnection fee only applies when service is reconnected. There is no approved charge for disconnecting service. The Company agreed to credit those accounts for the overcharge. Staff recommends that the Company revise the description of the reconnection fee in its tariff to clearly describe the circumstances under which the fee applies. Staff also recommends that the Company work to ensure it uniformly applies the rates and charges approved by the Commission.

Late Payment Charge

Late payment charges encourage timely payment and help the Company recoup some of the cost of collecting past due bills. The UCRR allows a minimum of fifteen days after the bill date before a payment becomes past due. Staff supports the adoption of a late-payment charge to

encourage prompt bill payment, and recommends that the Company be allowed to charge 1% on any past-due balance owing at the time of the next billing statement.

Insufficient Funds Charge

The Company has not asked for permission to charge a customer whose check is not honored by the customer's financial institution or who makes an electronic payment on an account with insufficient funds. However, Staff recognizes such a charge is appropriate to allow the Company to recover its cost and discourage customers from making payments that are not honored by their financial institution. Idaho Code §28-22-105 allows a company to charge up to \$20.00 for dishonored checks, and the Commission has allowed utility tariffs to include this type of charge in the past.

In its audit for this case, Staff found the Company has incurred costs for dishonored payments. The Company's bank (Wells Fargo) assesses a \$12.00 charge for each deposit the Company makes that is returned unpaid by the customer's financial institution. In addition, there are administrative costs associated with adjusting the customer's account records and pursuing collection of the amount owed. Staff recommends that the Commission approve a \$20.00 insufficient funds charge to be applied when a customer tenders payment for utility service with a dishonored check or makes an electronic payment on an account with insufficient funds.

STAFF RECOMMENDATIONS

Staff recommends:

1. A 2015 test year with known and measurable changes.
2. The Company institute a records retention policy.
3. Stopping the surcharge.
4. A rate base of \$465,874
5. An 11% return on equity.
6. An overall rate of return of 2.15%.
7. An annual revenue requirement of \$91,061 (a 74% increase).
8. A metered rate design as proposed by Staff.
9. The Company include monthly usage by customer number with its annual report.

10. The Company work with Staff to revise its tariff, including rate schedules and General Rules and Regulations.
11. A late payment fee of 1% on the past due balance owing at the time of the next billing statement.
12. A \$20.00 insufficient funds charge to be applied when a customer tenders payment for utility service with a dishonored check or makes an electronic payment on an account with insufficient funds.
13. The Company revise its tariff to clearly explain the circumstances under which the reconnection fee applies.
14. The Company update its tariff to comply with current UCCR requirements and incorporate the Uniform Main Extension Rule for Water Utilities.
15. The Company work with Staff to establish a meter reading and billing policy and develop a written explanation of that policy for distribution to customers.
16. The Company promptly return phone and email messages, and maintain a 24-hour phone number for emergencies that is clearly posted on the door of the office.
17. The Company work with Staff to identify existing resources and/or develop appropriate information that can be provided to customers to help them during the transition to metered rates.

Respectfully submitted this 19th day of August 2016.



Karl Klein
Deputy Attorney General

Technical Staff: Joe Terry
Bentley Erdwurm
Chris Hecht
John Nobbs

i:umisc:comments/mnvw16.1kkjtjnbecwh comments

Morning View Water Co.
Adjustments Summary
MNV-W-16-01

	Company Case		A	B	C	D	E	F	G	H	I	J	K	Staff
				Remove One Time Revenue	Transfer Contingency Surcharge	Reclassify Salaries	Labor- Admin & Gen	Electricity Expense	Materials & Supplies- Op& Mtnce	Water Testing	Misc Expenses	PUC Fees	Plant Adjustment	Recommendation
Revenues														
1 Unmetered Sales	52,219				(6,310)									45,909
2 Commission-approved Surcharges collected					6,310									6,310
3 Other Revenue	137			(137)										-
4 Total Revenue	52,356			(137)	-	-	-	-	-	-	-	-	-	52,219
Operating Expenses														
5 Labor-Operation & Maintenance	-					9,180								-
6 Labor-Customer Accounts	-													-
7 Labor-Administrative & General	16,800					(9,165)								7,635
8 Salaries-Officers & Directors	12,240					(9,180)								3,060
9 Employee Pensions & Benefits	-													-
10 Purchased Water	-													-
11 Purchased Power & Fuel for Power	21,582							(7,303)						14,279
12 Chemicals	-													-
13 Materials & Supplies-Operation & Maintenance	4,100								(1,175)					2,925
14 Materials & Supplies-Admin & General	1,600													1,600
15 Contract Services-Professional	1,890													1,890
16 Contract Services-Water Testing	1,000									952				1,952
17 Contract Services-Other	-													-
18 Rentals-Property & Equipment	-													-
19 Transportation Expense	-													-
20 Insurance	126													126
21 Advertising	-													-
22 Rate Case Expense (Amortization)	-													-
23 Regulatory Comm. Exp. (Other Except Taxes)	-													-
24 Bad Debt Expense	-													-
25 Miscellaneous Expenses	12,049										(3,743)			8,306
26 Total Operating Expense	71,388			-	-	-	(9,165)	(7,303)	(1,175)	952	(3,743)	-	-	50,952
27 Depreciation Expense	22,057												(1,235)	20,822
28 Rate Case Amortization														-
29 Regulatory Fees	758											(122)		636
30 Property Taxes	510											506		1,016
31 Payroll Taxes	5,596						(1,402)							4,194
32 DEQ Fees	530													530
33 Total Expenses	100,838			-	-	-	(10,567)	(7,303)	(1,175)	952	(3,743)	384	(1,235)	78,150
34 Net Income	(48,483)			(137)	-	-	-	7,303	1,175	(952)	3,743	(384)	1,235	(25,932)
35 Plant in Service	630,322								602				(161,008)	469,916
36 Accumulated Depreciation	22,057												(11,646)	10,411
37 Net Plant in Service	608,265			-	-	-	-	-	602	-	-	-	(149,362)	459,505

Morning View Water Co.
Contingency Fund Analysis
MNV-W-16-01

for CYE	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Deposits Anticipated											
1 Jan	0	480	500	530	515	505	505	530	530	525	520
2 Feb	0	470	505	535	505	505	505	530	530	525	525
3 Mar	0	475	510	530	485	505	505	530	530	530	525
4 Apr	0	470	500	520	500	520	505	530	530	530	525
5 May	0	465	500	530	505	515	505	530	530	530	520
6 Jun	470	465	530	515	515	505	510	530	530	530	520
7 Jul	470	490	520	510	510	505	510	530	530	530	520
8 Aug	485	485	520	500	510	510	510	530	530	530	520
9 Sep	485	485	515	500	510	505	505	530	530	520	520
10 Oct	490	495	510	510	510	500	500	530	530	520	0
11 Nov	500	500	520	510	510	500	500	530	530	520	0
12 Dec	480	500	525	520	500	495	510	530	525	520	0
13 Totals	\$3,380	\$5,780	\$6,155	\$6,210	\$6,075	\$6,070	\$6,070	\$6,360	\$6,355	\$6,310	\$4,695
14 Total Deposits Expected							\$ 63,460				
15 Balance per Order No 30420							\$ 6,433				
16 Less: Verified Expenses							\$ 7,450				
17 Net Amount							<u>\$ 62,443</u>				
18 Less: Remaining Plant in Service From 2006 Case							\$ 255				
19 Remaining Contingency Funds to be Applied to Rate Base							<u><u>\$ 62,188</u></u>				

Morning View Water Corporation
Labor - Operations & Maintenance
CYE 2015

	Labor O&M	Labor Off & Dir
Reported	\$0	\$12,240
Water & Water Water System Opr		
SOC 51-8031		
Audit Adjustment	\$9,180	(\$9,180)
Account Balance	<u>\$9,180</u>	<u>\$3,060</u>

Morning View Water Corporation
Labor - Administrative and General
David Reading
CYE 2015

Reported	Hours	Rate	Total
Average Annual Wage	1,040	\$16.15	\$16,800
Staff	500	\$15.27	\$7,635
difference	540	\$0.88	\$9,165

Payroll Tax Expense	Details	Amount
Adjustment for D. Reading		
Payroll Adjustment	(\$9,165)	
Payroll Tax Rate	15.30%	
Payroll Tax Adjustment		(\$1,402)

Morning View Water Company

Adjustment for Purchased Power/Fuel -- Electricity Costs

Step 1: Adjusting for Rocky Mountain Power Price Increase

	kWh Acct 66836835	kWh Acct 1614436	kWh Total	Jan-16 kWh price change (\$/kWh)	Adjustment
Jan-15	741	2,970	3,711	\$ 0.002903	\$ 10.77
Feb-15	444	2,681	3,125	\$ 0.002903	\$ 9.07
Mar-15	381	3,245	3,626	\$ 0.002903	\$ 10.53
Apr-15	14,810	486	15,296	\$ 0.002903	\$ 44.40
May-15	7,082	6,230	13,312	\$ 0.002903	\$ 38.64
Jun-15	17,260	358	17,618	\$ 0.002903	\$ 51.15
Jul-15	23,315	437	23,752	\$ 0.002903	\$ 68.95
Aug-15	16,266	3,460	19,726	\$ 0.002903	\$ 57.26
Sep-15	8,958	14,364	23,322	\$ 0.002903	\$ 67.70
Oct-15	870	12,233	13,103	\$ 0.002903	\$ 38.04
Nov-15	5,371	7,287	12,658	\$ 0.002903	\$ 36.75
Dec-15	18,200	459	18,659	\$ 0.002903	\$ 54.17
	113,698	54,210	167,908		\$ 487.44

Net Adjustment for Step 1	\$ 487.44
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Step 2: Adjusting kWh for Abnormal Usage Pattern

Actual Sales Data			
	Monthly Sales (1,000 gal)	kWh	kWh/ 1,000 Gallons
Jan-15			
Feb-15			
Mar-15			
Apr-15			
May-15	6,991	13,312	1.904
Jun-15	7,542	17,618	2.336
Jul-15	11,351	23,752	2.093
Aug-15	10,979	19,726	1.797
Sep-15	5,347	23,322	4.362
Oct-15	4,461	13,103	2.937
Nov-15	600	12,658	21.097
Dec-15	556	18,659	33.559
Total May-Dec	47,827	142,150	

Morning View Water Company
Adjustment for Purchased Power/Fuel -- Electricity Costs

Step 2 (Cont.)

Estimating KWh Assuming Typical November/December Pumping

Estimate 1

Based on maximum monthly kWh per 10K gallons sold (4.362)
 (Over May-Oct 2015)

Month	Monthly Sales (10,000 gal)	kWh/ 1000 Gallons	Estimated kWh
Nov-15	600	4.362	2,617
Dec-15	556	4.362	2,425
Estimate 1			5,042

Estimate 2

Based on Actual 2014 kWh

Month	kWh
Nov-14	3,748
Dec-14	2,932
Estimate 2	6,680

Summary	kWh
Actual Nov/Dec 2015	31,317
Estimate 1 Nov/Dec	5,042
Estimate 2 Nov/Dec	6,680

Morning View Water Company
Adjustment for Purchased Power/Fuel -- Electricity Costs

Step 2 (Cont)

Calculating Adjustment to Account for Non-Typical Nov/Dec kWh

Use Estimate 2 Above

	kWh
Actual Nov/Dec 2015	31,317
Less Estimate 2	<u>6,680</u>
Difference in kWh	24,637

\$ Value of kWh

kWh Difference	24,637
times Price per kWh	0.08306
Downward Adjustment \$	2,046.35

Net Adjustment for Step 2 **\$ (2,046.35)**

Step 3: Adjusting for Minimum Charges and Late Charges

Minimum Charges

Month	Adjustment to Min Charges
May-15	\$ (116.11) (downward adj - remove unnecessary charge)
Sep-15	\$ (69.12) (downward adj - remove unnecessary charge)
Nov-15	\$ 239.75 (upward adj - add back minimum charge)
Dec-15	\$ <u>239.75</u> (upward adj - add back minimum charge)
Adjustment	\$ 294.27 Net Positive adjustment to Expenses (see note)

Note 1: Company incurred Unavoidable Minimum Charges
in Jan, Feb, Mar, and Oct 2015

Note 2: With lower usage levels used for the adjustment, Company would have
incurred late charges in Nov and Dec 2015; they are added back at \$239.75.
Equals Mar 2016 late charge.

Summary of Step 3:

Minimum Charge Adjustment	\$ 294.27
Adj to Remove Late Charges	\$ (38.85)

Net Adjustment for Step 3 **\$ 255.42**

Morning View Water Company
Adjustment for Purchased Power/Fuel -- Electricity Costs

Step 4: Remove Company's Proposed Known Adjustment

The Company's proposed known adjustment to purchased power/fuel is not justified.

Net Adjustment for Step 4	\$ (6,000.00)
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Total Adjustment for Electricity Costs	
Net Adjustment for Step 1	\$ 487.44
Net Adjustment for Step 2	\$ (2,046.35)
Net Adjustment for Step 3	\$ 255.42
Net Adjustment for Step 4	<u>\$ (6,000.00)</u>
Total Adjustment	\$ (7,303.49)

Summary	
Test Year Actual Purchased Power - Fuel for Power (application Sch B, row 7)	\$ 15,582.31
Company Proposed Adjustment	<u>\$ 6,000.00</u>
Company Request (Pro Forma)	\$ 21,582.31
Staff Proposed Adjustment:	\$ (7,303.49)
Staff Adjusted Purchased Power	\$ 14,278.82

Morning View Water Company
Materials & Supplies - Operations & Maintenance
CYE 2015

	Check No.	Details	Total
Non Recurring			
Knife River Concrete	3329	\$152	
Labor - Frank Gneiting	3331	\$450	
Undocumented Related Party	BankTrnsf	<u>\$573</u>	
Audit Adjustment			\$1,175

**Morning View Water Company
Adjustment for Water Testing**

Wells #1-3

Source	Analyte	Frequency	No. of Test*	Cost/Test	Total Cost	Annual Cost
Each Well	Nitrate	Annual	9	\$ 40.00	\$ 360.00	\$ 40.00
Each Well	Nitrite	1 in 9 Years	1	\$ 40.00	\$ 40.00	\$ 4.44
Each Well	Alpha	1 in 6 Years	1.5	\$ 110.00	\$ 165.00	\$ 18.33
Each Well	Radium 226	1 in 9 Years	1	\$ 180.00	\$ 180.00	\$ 20.00
Each Well	Radium 228	1 in 9 Years	1	\$ 180.00	\$ 180.00	\$ 20.00
Each Well	Uranium	1 in 6 Years	1.5	\$ 150.00	\$ 225.00	\$ 25.00
Each Well	Arsenic	1 in 3 Years	3	\$ 40.00	\$ 120.00	\$ 13.33
Each Well	Sodium	1 in 3 Years	3	\$ 30.00	\$ 90.00	\$ 10.00
Each Well	Flouride	1 in 3 Years	3	\$ 25.00	\$ 75.00	\$ 8.33
Each Well	IOC **	1 in 3 Years	3	\$ 200.00	\$ 600.00	\$ 66.67
Each Well	VOC**	1 in 3 Years	3	\$ 210.00	\$ 630.00	\$ 70.00
Each Well	Chlorinated Herbicides	1 in 3 Years	3	\$ 250.00	\$ 750.00	\$ 83.33
Each Well	SOC 525	1 in 3 Years	3	\$ 280.00	\$ 840.00	\$ 93.33
Subtotal Per Well						\$ 472.78

Subtotal Per Well	\$ 472.78
Times 3 Wells	\$ 1,418.33

Distribution

Source	Analyte	Frequency	No. of Test*	Cost/Test	Total Cost	Annual Cost
Distribution	Lead & Copper	5 samples/3 years	30	\$ 70.00	\$ 2,100.00	\$ 233.33
Distribution	Total Coliform	Monthly	108	\$ 25.00	\$ 2,700.00	\$ 300.00
Subtotal Distribution						\$ 533.33

Grand Total - Normalized Annual Water Testing Costs	\$ 1,951.67
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* Total number of tests in 9-year cycle.

** IOC = Inorganic Contaminants

VOC = Volatile Organic Contaminants

DBP = Distribution By-Products

Company Pro Forma Water Testing	\$ 1,000.00
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Staff Normalized Annual Water Testing Costs	\$ 1,951.67
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Staff Adjustment to Water Testing	\$ 951.67
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Morning View Water Company
Miscellaneous Expense
CYE 2015

	Reported	Test Yr	Kwn&Meas	Total	Audit Adj	Adj total
1 Bank Svc Charges		\$351	\$9	\$360	(\$281)	\$79
2 Idaho Rural Water Assn		\$200	\$0	\$200		\$200
3 Licensing		\$146	\$155	\$301		\$301
4 Missing Funds		\$324	(\$324)	\$0		\$0
5 Telephone & Internet Svs		\$2,632	\$68	\$2,700		\$2,700
6 Computer software support		\$0	\$3,000	\$3,000	(1,500)	\$1,500
7 Quickbooks		\$0	\$760	\$760		\$760
8 Legal Fees		\$0	\$100	\$100	700	\$800
9 Mileage		\$0	\$2,368	\$2,368	(\$2,000)	\$368
10 Office Rent		\$0	\$900	\$900		\$900
11 Repairs & Maintenance		\$0	\$1,000	\$1,000	(\$850)	\$150
12 Utilities		\$0	\$360	\$360		\$360
13 Rate Case Transcript		\$0	\$0	\$0	\$188	\$188
13 subtotal		\$3,653	\$8,396	\$12,049	(\$3,743)	\$8,306

Morning View Water Company
PUC Fees Expense
CYE 2015

	Detail	subtotal	Amount
Reported			
Test Year Actual	\$630.40		
Known & Measureable Changes	<u>\$127.11</u>		
Total		\$757.51	
Fee Calculation			
2015 Revenues	\$52,356		
Rate	<u>0.2481%</u>		
Annual PUC Fee		\$129.90	
Reclassification of Property taxes		<u>\$506.00</u>	
Audit Adjustment			\$121.61

Morning View Water Co.
Plant in Service
MNV-W-16-01

ACCT #	DESCRIPTION	New Plant Installed in 2015	Allocate Unused Contingency Funds	Staff Position for Plant in Service
301	Organization	-	-	-
302	Franchises and Consents	-	-	-
303	Land & Land Rights	-	-	-
304	Structures and Improvements	55,867	(6,529)	49,338
305	Collecting & Impounding Reservoirs	-	-	-
306	Lake, River & Other Intakes	-	-	-
307	Wells	87,696	(10,249)	77,447
308	Infiltration Galleries & Tunnels	-	-	-
309	Supply Mains	96,478	(11,276)	85,202
310	Power Generation Equipment	62,688	(7,327)	55,362
311	Power Pumping Equipment	149,119	(17,428)	131,691
320	Purification Systems	-	-	-
330	Distribution Reservoirs & Standpipes	-	-	-
331	Trans. & Distrib. Mains & Accessories	-	-	-
333	Services	-	-	-
334	Meters and Meter Installations	72,891	(8,519)	64,372
335	Hydrants	-	-	-
336	Backflow Prevention Devices	-	-	-
339	Other Plant & Misc. Equipment	-	-	-
340	Office Furniture and Equipment	-	-	-
341	Transportation Equipment	-	-	-
342	Stores Equipment	-	-	-
343	Tools, Shop and Garage Equipment	-	-	-
344	Laboratory Equipment	-	-	-
345	Power Operated Equipment	-	-	-
346	Communications Equipment	-	-	-
347	Miscellaneous Equipment	7,365	(861)	6,504
348	Other Tangible Property	-	-	-
	TOTAL	532,104	(62,188)	469,916

Morning View Water Co.

Accumulated Depreciation and Depreciation Expense

MNV-W-16-01

ACCT #	DESCRIPTION	Useful Life	Dep Rate	First Year Dep/ Accumulated Depreciation	Depreciation Expense
301	Organization	-			
302	Franchises and Consents	-			
303	Land & Land Rights	-			
304	Structures and Improvements	49,338	35 2.86%	705	1,410
305	Collecting & Impounding Reservoirs	-			
306	Lake, River & Other Intakes	-			
307	Wells	77,447	25 4.00%	1,549	3,098
308	Infiltration Galleries & Tunnels	-			
309	Supply Mains	85,202	50 2.00%	852	1,704
310	Power Generation Equipment	55,362	10 10.00%	2,768	5,536
311	Power Pumping Equipment	131,691	20 5.00%	3,292	6,585
320	Purification Systems	-			
330	Distribution Reservoirs & Standpipes	-			
331	Trans. & Distrib. Mains & Accessories	-			
333	Services	-			
334	Meters and Meter Installations	64,372	35 2.86%	920	1,839
335	Hydrants	-			
336	Backflow Prevention Devices	-			
339	Other Plant & Misc. Equipment	-			
340	Office Furniture and Equipment	-			
341	Transportation Equipment	-			
342	Stores Equipment	-			
343	Tools, Shop and Garage Equipment	-			
344	Laboratory Equipment	-			
345	Power Operated Equipment	-			
346	Communications Equipment	-			
347	Miscellaneous Equipment	6,504	10 10.00%	325	650
348	Other Tangible Property	-			
	TOTAL	469,916		10,411	20,822

Morning View Water Co.
Rate Base Calculation
MNV-W-16-01

	Application	Staff Recommendation	Difference
1 Plant In Service	630,322	469,916	(160,406)
2 Accumulated Depreciation	<u>22,057</u>	<u>10,411</u>	<u>(11,646)</u>
3 Net Plant in Service	608,265	459,505	(148,760)
4 Inventory	-	-	-
5 Working Capital	<u>71,388</u>	<u>6,369</u>	<u>(65,019)</u>
6 Total Rate Base	679,653	465,874	(213,778)
7			
8			
9 Working Capital Calculation			
10 Total Operating Expense	<u>71,388</u>	<u>50,952</u>	<u>(20,435)</u>
11 Working Capital	71,388	6,369	(65,019)

Morning View Water Co.
Rate of Return Calculation
Case No. MNV-W-16-01

	Company Case				Staff Recommendation			
	(A) Amount Outstanding	(B) % of Total Outstanding (Column A/ Total Line 6)	(C) Cost of Capital	(D) Weighted Cost (Column B X Column C)	(A) Amount Outstanding	(B) % of Total Outstanding (Column A/ Total Line 6)	(C) Cost of Capital	(D) Weighted Cost (Column B X Column C)
1 Common Equity (Proprietor Capital Paid In)	\$ 34,911			-	\$ 54,063			-
2 Retained Earnings	\$ -				\$ -			
3 Total Common Equity (Proprietor Capital) Line 1 + Line 2	\$ 34,911	5.77%	0.00%	0.00%	\$ 54,063	9.23%	11.00%	1.02%
4 Short-Term Debt	\$ 19,152	3.17%	4.00%	0.13%		0.00%	4.00%	0.00%
5 Long-Term Debt	\$ 550,654	91.06%	8.00%	7.28%	\$ 531,502	90.77%	1.25%	1.13%
6 Total Capital	\$ 604,716				\$ 585,565			
7 Weighted Cost of Capital (Rate of Return Required)				7.41% (Line 3 + 4 + 5)				2.15% (Line 3 + 4 + 5)

Morning View Water Co.
Revenue Requirement
Case No. MNV-W-16-01

	Company Case	Staff Case
1 Rate Base	\$ 682,070	\$ 465,874
2 Required Rate of Return	7.41%	2.15%
3 Return on Investment	\$ 50,551	\$ 10,017
4 Net Operating Income Realized	\$ (50,901)	\$ (25,932)
5 Net Operating Income Deficiency	\$ 101,452	\$ 35,949
Revenue Requirement Increase		
9 Subject to Income Tax	\$ 50,551	\$ 10,017
10 Tax Gross Up Factor	128.0631%	128.8884%
Tax Grossed Up Amount	\$ 64,738	\$ 12,911
11 Not Subject to Income Tax	\$ 50,901	\$ 25,932
12 Gross Up Factor not Subject to Income Taxes	100.1881%	100.6925%
Not Subject to Income Taxes Amount	\$ 50,996	\$ 26,112
Revenue Requirement Increase	\$ 115,734	\$ 38,843
13 Revenue Increase Required	\$115,734	\$38,843
14 Amortize Rate Case Expenses		
15 Total Revenue Increase Required	\$115,734	\$ 38,843
16 Total Revenue Collected in Test year	\$52,356	\$ 52,219
17 Revenue Increase %	221.05%	74.39%
18 Total Gross Revenue Requirement	\$168,090	\$ 91,061

	Subject to Income Taxes	Excluding Income Taxes	Subject to Income Taxes	Excluding Income Taxes
Gross-up Factor Calculation				
19 Net Deficiency	100.00%	100.00%	100.00%	100.00%
20 PUC Fees	0.1877%	0.1877%	0.1877%	0.1877%
21 Bad Debts	0.0000%	0.0000%	0.5000%	0.5000%
	99.8123%	99.8123%	99.3123%	99.3123%
22 State Tax @ 8%	7.9601%	0.0000%	7.9601%	0.0000%
23 Federal Taxable	91.8522%	99.8123%	91.3522%	99.3123%
24 Federal Tax @ 15%	13.76570%	0.00000%	13.76570%	0.00000%
25 Net After Tax	78.08650%	99.81230%	77.58650%	99.31230%
26 Net to Gross Multiplier	128.06311%	100.18805%	128.88840%	100.69246%

Morning View Water
Quarter Acre Lot Bill Comparison

Tgal / month	Percentile	Staff		\$ Increase	% Increase
		Current	Proposed		
0	-	\$32.41	\$49.00	\$16.59	51%
5	20	\$32.41	\$49.75	\$17.34	54%
10	49	\$32.41	\$50.50	\$18.09	56%
20	69	\$32.41	\$55.00	\$22.59	70%
30	80	\$32.41	\$59.50	\$27.09	84%
40	87	\$32.41	\$64.00	\$31.59	97%
50	93	\$32.41	\$68.50	\$36.09	111%
75	97	\$32.41	\$79.75	\$47.34	146%
100	98	\$32.41	\$91.00	\$58.59	181%
144	max	\$32.41	\$110.80	\$78.39	242%

Current Rate (includes \$5.00/ month surcharge)

	Minimum Charge
One Quarter Acre	\$ 32.41

Staff Proposed

	One Quarter Acre
Minimum Charge	\$ 49.00
Tier 1 - \$/1000 gal	\$0.15
Size 1st Tier (1000 g)	10
Tier 2 - \$/1000 gal	\$0.45

**Morning View Water
Half Acre Lot Bill Comparison**

Tgal / month	Percentile	Staff		\$ Increase	% Increase
		Current	Proposed		
0	-	\$40.94	\$58.00	\$17.06	42%
5	30	\$40.94	\$58.75	\$17.81	44%
10	43	\$40.94	\$59.50	\$18.56	45%
20	54	\$40.94	\$61.00	\$20.06	49%
38	67	\$40.94	\$63.70	\$22.76	56%
40	68	\$40.94	\$64.00	\$23.06	56%
50	72	\$40.94	\$68.50	\$27.56	67%
100	89	\$40.94	\$91.00	\$50.06	122%
200	98	\$40.94	\$136.00	\$95.06	232%
432	max	\$40.94	\$240.40	\$199.46	487%

Current Rate (includes \$5.00/ month surcharge)

	Minimum Charge
One Half Acre	\$ 40.94

Staff Proposed

	One Half Acre
Minimum Charge	\$ 58.00
Tier 1 - \$/1000 gal Size 1st Tier (1000 g)	\$0.15 40
Tier 2 - \$/1000 gal	\$0.45

**Morning View Water
Acre Lot Bill Comparison**

Tgal	Percentile	Current	Staff		% Increase
			Proposed	Increase	
0	-	\$49.48	\$63.00	\$13.52	27%
5	20	\$49.48	\$63.75	\$14.27	29%
10	43	\$49.48	\$64.50	\$15.02	30%
20	47	\$49.48	\$66.00	\$16.52	33%
40	51	\$49.48	\$69.00	\$19.52	39%
66	59	\$49.48	\$79.20	\$29.72	60%
100	74	\$49.48	\$94.50	\$45.02	91%
150	86	\$49.48	\$117.00	\$67.52	136%
200	93	\$49.48	\$139.50	\$90.02	182%
458	max	\$49.48	\$255.60	\$206.12	417%

Current Rate (includes \$5.00/ month surcharge)

	Minimum
	Charge
Acre	\$ 49.48

Staff Proposed

	Acre
Minimum	
Charge	\$63.00
Tier 1 - \$/1000 gal	\$0.15
Size 1st Tier (1000 g)	45
Tier 2 - \$/1000 gal	\$0.45

Morning View Water
Proof of Revenue

Quarter Acre Lot Customers

	Units	Current Rate Including (\$5.00 Surcharge)	Current Revenue	Staff Proposed Rate	Revenue under Staff Proposed	\$ Increase	% Increase
Customers	22	\$32.41					
Minimum Charges ¹	264		\$8,556.24	\$49.00	\$12,936.00	\$4,379.76	51%
1st Tier Usage	2,056		\$0.00	\$0.15	\$308.40	\$308.40	N/A
2nd Tier Usage	3,103		\$0.00	\$0.45	\$1,396.35	\$1,396.35	N/A
Total Usage	5,159		\$0.00		\$1,704.75	\$1,704.75	N/A
Revenue - Quarter Acre			\$8,556.24		\$14,640.75	\$6,084.51	71%

Half Acre Lot Customers

	Units	Current Rate Including (\$5.00 Surcharge)	Current Revenue	Staff Proposed Rate	Revenue under Staff Proposed	\$ Increase	% Increase
Customers	53						
Minimum Charges ¹	636	\$ 40.94	\$26,037.84	\$58.00	\$36,888.00	\$10,850.16	42%
1st Tier Usage	9,290			\$0.15	\$1,393.50	\$1,393.50	N/A
2nd Tier Usage	14,660			\$0.45	\$6,597.00	\$6,597.00	N/A
Total Usage	23,950		\$0.00		\$7,990.50	\$7,990.50	N/A
Revenue - Half Acre			\$26,037.84		\$44,878.50	\$18,840.66	72%

Acre Lot Customers

	Units	Current Rate Including (\$5.00 Surcharge)	Current Revenue	Staff Proposed Rate	Revenue under Staff Proposed	\$ Increase	% Increase
Customers	31						
Minimum Charges ¹	372	\$ 49.48	\$18,406.56	\$63.00	\$23,436.00	\$5,029.44	27%
1st Tier Usage	9,647			\$0.15	\$1,447.05	\$1,447.05	N/A
2nd Tier Usage	15,081			\$0.45	\$6,786.45	\$6,786.45	N/A
Revenue - Acre			\$18,406.56		\$31,669.50	\$13,262.94	72%

Total

	Units	Current Revenue	Revenue under Staff Proposed	\$ Increase	% Increase
Customers	106				
Minimum Charges ¹	1272	\$53,000.64	\$73,260.00	\$20,259.36	38%
1st Tier Usage	20,993		\$3,148.95	\$3,148.95	N/A
2nd Tier Usage	32,844		\$14,779.80	\$14,779.80	N/A
Total Usage	53,837	\$0.00	\$17,928.75	\$17,928.75	N/A
Note: volumetric charges of \$18,257 account for approx. 20% of revenue of \$88,973					
Revenue - Acre		\$53,000.64	\$91,188.75	\$38,188.11	72%

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 19TH DAY OF AUGUST 2016, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. MNV-W-16-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

NOLAN GNEITING OWNER
MORNING VIEW WATER CO
PO BOX 598
RIGBY ID 83442
E-MAIL: morningviewwater@gmail.com



SECRETARY